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Apple Partnership Strategy

Internal Briefing Document; Privileged and Confidential

Last Updated: 10/29/20 by mschloss@ and cdowney@

RELATIONSHIP SUMMARY: The Apple/Google relationship is predominantly amicable across Search, YT, Cloud, Ads, and Corp Eng. That being said, despite the size of the relationship, Apple doesn't always treat Google as one of its largest partners. For example, Apple has been slow to incorporate its major services (AppleTV, Apple Music) onto Google 1P HW (Android TV and Google Assistant devices). Apple put these services first on Amazon. Apple also doesn't prioritize interoperability between Apple's 1P services and 3P services, and often responds slowly to Google's developer relations outreach.

The fairly positive relationship with Apple is grounded in the Search agreement, and subsequent strong top-to-top engagement, but Apple could pose a significant risk if these were not in place through its ability to 1) close its ecosystem to Google entry points and services, 2) refuse to discuss/consider optimizations to Google experiences on iOS (like Safari Suggest), or 3) provide Apple services on other HW and not Google's.

GOOGLE'S PARTNERSHIP STRATEGY: Google initiates partnerships that create a better, more fluid user experience. In practice, this means Google either creates Google products to fit within Apple's ecosystem (e.g., Google apps for iOS or Google Maps on CarPlay), or adding Apple's services to Google's ecosystem (e.g., Apple Music to Google Assistant/Nest devices). Google also supports Apple's backup of iCloud user data onto GCP and supports Apple's marketing efforts via GCAS.

APPLE STRATEGIC PRIORITIES

- **Increase Services revenue:** Apple is building out its Services capabilities (including the Apple Store, Apple Music, AppleTV+), as it seeks to reduce its reliance on HW revenue streams. In Q4 FY20, Apple's Services revenue continued building on multiple quarters of growth and hit an all-time high (\$14.5B, +16% YoY). Services have grown to more than half the volume of iPhone revenue and ~22% of overall revenue. Apple launched a services bundle, called "Apple One" in October 2020 that offers various tiers of service subscriptions, including Apple Music, Apple TV+, Apple Arcade, iCloud, Apple News+, and its new Apple Fitness+ offering. ([Additional detail](#))
- **Build out Wearables category:** Despite the recent strength of iPhone sales, Apple is also working diligently to build up its wearables and accessories businesses. Wearables in particular create new entry points into Apple's increasingly sticky and pervasive ecosystem, fueling Services growth.
- **Retain users within the iOS ecosystem:** Most of Apple's iPhone native apps are all Apple-managed and lead to Apple services (see image of [iPhone home screen in Appendix 1](#)). However, with the launch of iOS 14 in September 2020, users can select other default email and browsers. This strategy has performed well - Apple's preloaded apps comprised 17 of the 20 most-used iPhone applications in September 2020. Only one Google app, gMail, was within this top 20 (#19).

PRIORITY RELATIONSHIP ISSUES

- **iOS 14 changes:** Google leadership and developer relations teams are working to understand what impact Apple's policy changes announced at WWDC will have on Google's products and services. These changes include updates to Apple's ads tracking policies where apps that engage in cross-app or website tracking will have to request permission to do so. While these changes were supposed to launch with iOS 14 in September 2020, confusion and pushback from developers and advertisers led Apple to delay these changes until early 2021. ([Additional detail](#)).
- **Google App Promotion:** Google App promotion in the iOS store was agreed in Google's current Search agreement (Sep 2016), yet we have not seen significant App Store promotions. In November 2019, Apple ran an iOS App Store promotion on browsers on the iOS App Store and positioned Chrome as #7 of the 7 featured browsers. Edge was positioned at #1. ([Photos](#)). Apple has now assigned a person to work on potential iGSA and Chrome promotions, but we are waiting on the outcomes of this assignment.

- **Messaging Interoperability:** Google is interested in working with Apple on interoperability between iMessage and Android Messages. However, to date, Apple has not expressed interest in partnering on messaging, which we expect is driven by the following reasons:
 - iMessage as an iPhone differentiator: Apple believes that the “blue bubble vs. green bubble” controversy is a powerful differentiator for iPhone - keeping users within the iOS ecosystem
 - Apple concerns about privacy: Apple has been hesitant to partner externally given its overall distrust in other companies’ ability to protect user privacy.
- **CarPlay/Google Automotive Services:** Google Automotive Services would like to access iPhone communication features via Bluetooth (call, messages) when a CarPlay session is active. Right now, in Google Automotive Services vehicles, iPhone users will not be able to make calls via OKG, unless the user disconnects CarPlay. This harms the user experience, both for Google Automotive Services and the vehicle OEM. Google is unsure whether this was an intentional block by Apple to strengthen the value proposition of CarPlay relative to other services (including GAS) and cannot find out from Apple because the working-level CarPlay team has become unresponsive.
- **YouTube Video Codecs (Video Compression Standards):** Apple is currently working towards implementing the VP9 video codec on select iOS and AppleTV devices by Fall 2020. However, in September 2017, Apple committed to adopting AV1 (the next gen codec after VP9) across their devices prior to the release of a new Apple TV device in Fall 2020 – making it unlikely that Apple will hit the AV1 commitment. YouTube expects Apple to adopt AV1 video codec no later than 2022, but Apple has not committed to this.
- **iOS In App Purchase (IAP) Payments Policy:** Apple requires that iOS apps use Apple’s payments platform and provide Apple with a 15-30% recurring service fee. Given challenging economics and steep IAP rev share terms, YouTube TV began disabling purchases of new subscriptions via IAP in June 2019. On March 13, 2020 YouTube TV turned off IAP for residual YouTube TV subscribers. Apple (Peter Stern) was notified of this plan and understood the rationale of this approach. Stadia has not included gameplay in its app, partially due to Apple’s IAP policy.
- **Cloud Gaming:** iOS App Store guidelines will not allow Cloud gaming services on iOS if there is gameplay (i.e., active content consumption) within the app. Apple claims that including gameplay within the app violate App Store policies because Apple cannot review each game individually. As a result of this Apple policy and Apple’s IAP payments policy, Stadia does not currently have gameplay available within its iOS app.

MAJOR ACTIVE DISCUSSIONS

- **AppleTV & Android TV:** *Active negotiations*
 - Apple launched AppleTV+ (Apple’s subscription streaming service) in Q4 2019 on almost all other major TV operating systems except for AndroidTV & Chromecast. The Android TV and Apple teams are now engaged, but this required executive escalation to get Apple to prioritize working with Google. Teams are working to determine which data rights management protocol will be used (Apple would prefer theirs, Google would prefer to use ours).
- **Apple Music on Google HW:** *Active negotiations*
 - Google and Apple teams have now made significant progress since Q4 2019 when Apple agreed to decouple Google’s ask to include Apple Music on Assistant HW from Apple’s ask to enable Airplay on Google HW. Google expects to launch the Apple Music/Assistant integration in 2020. For context: Apple Music became available on Amazon devices in Q4 2018 and Amazon Music launched on Apple TV in Q4 2019.
- **Siri Suggest:** *Implementation ongoing*
 - Apple decided to adjust the sites offered within Siri Suggested Sites to improve user quality. Apple found that a “slew of query types [is] not doing justice to users”. As a result, Apple will move ~20%-40% of diversions measured on Siri suggestions to below the Google suggestions

within Safari beginning January 31, 2021. Apple will also test other potential changes within the Suggest feature over 2020 to develop more fine-grained changes.

- **GCP Commitment : Contract signed**
 - As part of Apple's purchasing strategy, Apple reaches out approximately every year to renegotiate its Cloud pricing. In Q2 2020, Apple increased its Google Cloud Storage revenue commitment by [REDACTED] to a total contract value of [REDACTED], with a [REDACTED] gross margin. The deal term remains the same at 4 years 10 months, ending July 31, 2023. In Q2 2020, Cloud also lost a bid against [REDACTED] to replace Apple's existing Teradata enterprise data warehouse, due to [REDACTED] feature availability.
- **Safe Browsing API Discussions: Contract signed**
 - Apple and Google signed a contract in Q3 2020 to allow iOS developers to use Google's Safe Browsing API. Discussions on this ask in 2019 were not fruitful as Apple wanted to both control the Safe Browsing experience on iOS and pass legal liability for developer actions/issues to Google.

OPEN ASKS

Apple asks of Google (ranked from highest to lowest benefit for Google)

PA	Ask	Status	Benefit to Google	Risk to Google	Benefit to Apple
YouTube	Integrate YouTube with Apple Video Partner Program	Declined			
Cloud	Recurring asks to renegotiate the Cloud deal for more favorable terms	Apple renegotiated terms to receive a better rate in Q2 2020	Low	Low	High
HW	Receive premium placement of Apple Music across Google Platforms	Apple appears to have dropped this ask, but may escalate if it resurfaces	Low		High
Cloud	Receive reports on Google's supplier sustainability and diversity efforts	Google is determining if an exception can be made to grant Apple access to these agreements	Low		
P&E (Auto)	Allow GAS vehicles to concurrently run Siri and Google Assistant hotwords	Google evaluating whether to engage with Apple on this ask	Low		High
Assistant	Integrate the Google Assistant with the Apple store so queries for purchasing Apple HW route the user to the Apple Store, not 3P merchants	Declined. No current solution to offer to Apple	Low	Low	

Google asks of Apple (ranked from highest to lowest benefit for Google)

PA	Ask	Status	Benefit to Google	Risk to Apple	Benefit to Apple
Search	Remove Safari suggest features from Apple	Fix ongoing: Safari Suggest is moving select responses below Google's	High	Low	High
HW	Enable Apple Music on Google Nest/Assistant devices	Negotiation ongoing	High	Low	
Android TV	Enable AppleTV+ on Android TV devices	Negotiation ongoing	High		

Comms	Improve interoperability between Android Messages and Google Messages	Apple has historically not engaged	High		Low
YouTube / Stadia	Reduce in-app purchase revenue share (YT/Stadia) Allow Cloud gaming services on iOS if there is gameplay (Stadia) Create MFI agreement to allow controller to work with iPhone (Stadia)	No active negotiations on this topic (YT has removed IAP)	High	High	Low
P&E (Auto)	GAS to access iPhone communication features via Bluetooth (call, messages) when a CarPlay session is active	Google is engaging with OEMs and Apple about this initiative	High		Low
YT	YT would like to develop Picture-in-Picture (PiP) as a feature for YouTube Premium subscribers.	Apple has given preliminary green light to develop this feature, but Apple must review the feature before launch		Low	
Android Mobile	Enable AppleTV+ on Android mobile devices	Apple has declined for the short term			Low

RELATIONSHIP MAP

Status	Product	Context
	Ads (GCAS)	DVIP: The GCAS team signed a DVIP with Apple with a Tier One commitment of [REDACTED] and a Tier Two commitment of [REDACTED] for CY 2020. This would result in a global discount of 24% and 25% respectively. Negotiations for 2021 are in place as of Q4 2020. Apple spend with Google: • 2019: [REDACTED] // 2018: [REDACTED] // 2017: [REDACTED]
	Ads (GMP)	DV360 Deal: OMD (Apple's agency) signed a [REDACTED] deal to shift Apple's direct publisher reservation buys to Programmatic Guaranteed in DV360.
	Ads (LPS)	Ad Manager/Apple News: Ad Manager publishers on Apple News can use their existing Ad Manager accounts to traffic direct display and video ads within the Apple News app
	Assistant	Assistant: Apple wants to integrate the Google Assistant with the Apple store to more seamlessly allow users to purchase Apple HW (e.g. "Hey Google, buy an iPad from the Apple store). Google does not yet have a technical solution for this ask.
	Corp Eng	Google spend with Apple: 2020 YTD Google spend: [REDACTED] // 2019 Google Spend: est [REDACTED] (-20% YoY) // 2018 Google Spend: est [REDACTED] (+27% YoY)
	Cloud	GCP Deal: Apple increased its Google Cloud Storage revenue commitment by [REDACTED] to a total contract value of [REDACTED], with a [REDACTED] gross margin. The deal term remains the same at 4 years 10 months, ending July 31, 2023. This includes a [REDACTED] commit for compute/non-storage services. Apple investment in GCP framework: Apple invested resources to build a GCP framework to allow all work teams at Apple to use Google Cloud, similar to what they have in place for AWS. Apple has identified first mover workloads which they plan to take to pilot in Sept/Oct,

with the broader GCP@Apple platform going GA in Nov 2020.

Comms	<p>Messaging asks: Comms would like to engage with Apple on messaging interoperability and integrating Apple's Business Chat (ABC) into Search so users can message businesses via ABC</p> <p>Project Fi: Google Fi is working on a deal with Apple to purchase devices (iPhones) to resell to Google Fi customers.</p>
Developer Relations	<p>Communication flow between companies: Google often struggles to get critical information and updates from Apple, including details about product changes (e.g., the impact of iOS 14), the right point of contact for key projects, and timely replies.</p> <p>Google Apps on iOS: Google has ~100 apps published on the iOS app store, including 3 of the top 10 iOS non-native apps by MAU (YouTube, Google Maps, Gmail).</p> <p>Stadia: Stadia recently launched in the iOS app store, which garnered more attention at Apple than usual, given Apple's similar Apple Arcade offering. Given challenging economics around Apple's in app billing and Apple's removal of Cloud Gaming services from the app store, Stadia has not implemented GamePlay in its app.</p>
Device and Services (Hardware)	<p>Unity Alliance: The Apple Home and Nest teams are working together (with Amazon) to create a unified smart home networking protocol, giving Google a path to being ranged again in Apple stores. (Apple used to range Google HW devices in its stores, but stopped because we were working on separate protocols.)</p> <p>Assistant: Google and Apple are working towards integrating Apple Music with Google 1P Assistant devices (Google Nest Hub devices)</p> <p>Android TV: Google and Apple are in active negotiations to integrate AppleTV+ with Android TV device</p>
GAPP (Govt. Affairs & Public Policy)	<p>Contact Tracing: As part of the COVID-19 response, Google and Apple are working together to enable a broader Bluetooth-based contact tracing platform by building this functionality into Android and iOS respectively (Joint announcement)</p>
Geo	<p>Google Maps on CarPlay: Google Maps is available on Apple's CarPlay system</p>
Marketing	<p>[Issue] App Promotion Google would like Apple to promote Google apps, especially GSA and Chrome, more frequently within the iOS app store.</p>
Payments	<p>Project Cache: Payments is developing a GPay (Visa) card that allows Google Pay users to use their GPay stored value balance to make payments at merchants that accept Visa and is discussing with Apple whether Apple will place this card within Apple Pay</p>
● P&E (Android)	<p>GAS/CarPlay: Google Automotive Services would like to access iPhone communication features via Bluetooth (call, messages) when a CarPlay session is active. Right now, in Google Automotive Services vehicles, iPhone users will not be able to make calls via OKG, unless the user disconnects CarPlay.</p>
Research and Machine Intelligence	<p>CoreML version 2 launched with support for TensorFlow</p>

Search	<p>iOS / MacOS Search entry point</p> <p>Watch Actions: Search would like to bring AppleTV content (excluding AppleTV+) onto Search's What to Watch feature.</p>
Waze	<p>Waze on CarPlay: Waze is available on Apple's CarPlay system</p>
YouTube	<p>Watchtime statistics:</p> <ul style="list-style-type: none"> • Mobile (iOS): <u>YouTube main app</u>: 275M Hrs/day WT avg WT over last 30 days; YouTube TV on iOS: ~16% of total YTV revenue; ~21% of total YTV subscribers (183K) • Apple TV (tvOS): <u>YouTube Living Room app</u>: 5.6M hrs/day; 24% YoY growth (slower YoY growth than Roku, 49%, and many other LR devices). <u>YouTube TV</u>: Apple TV comprises 9.15% of YTV watch-time, with an average of 5.02 hrs of WT / DAV. <p>AirPlay: YouTube supports AirPlay for Apple devices</p> <p>YouTube apps on AppleTV Devices: YouTube informed Apple that the YouTube Main app on Apple TV Gen 3 devices will be deprecated in mid-September. YouTube Main, YouTube TV, and YouTube Kids apps will be supported on Apple TV Gen 4 and Gen 5, and on the upcoming Gen 6 device.</p> <p>Picture-in-Picture: After several discussions with Apple about our desire to build Picture-in-Picture (PiP) as a feature for YouTube Premium subscribers, Apple has given us the green-light. Apple will still need to review the actual implementation when we submit our binary to make a final determination.</p> <p>"Brands as Creators" Program: The Brands as Creators team sits within YouTube Content Partnerships and provides Partner Manager support in order to improve Apple's organic content for users, increase their watch time, and grow their engagement with the platform. Channels managed by the BaC program include <u>Apple</u>, <u>Beats by Dre</u>, and <u>Apple Music</u> (note: <u>Apple TV+</u> is managed by YouTube's Film & TV vertical). Example of the partnership: Apple shifted the livestream of their fall announcement event from Twitter to YouTube in Sept. 2019 after partnering closely with the Brands as Creators team. The livestream brought in 1.8M peak concurrents (11.5M total views), making it the 5th most successful livestream on YT and generating \$2.1M in incremental paid media spend. Apple has continued live streaming their events on YT in 2020.</p>

INTERNAL ANALYSES ON APPLE'S TREATMENT OF 1P VS. 3P APPS

Name and Link	Team	Description
<u>Project Honeycrisp</u>	BizOps	<p>Purpose: What can Google do <u>without assistance from Apple</u> to increase engagement and monetization of Google services on iOS.</p> <p>Background: The BizOps team kicked off a new project to develop a Google x-PA iOS strategy (context is that Apple is gaining premium share at an accelerated pace due to the iPhone 11 launch & Huawei Android ban). They plan to work with the Android Strategy team, growth team & central iOS "squad" who are tackling different parts of this question.</p>
<u>Apple 1P and 3P apps on iOS</u>	Top Partners	<p>Purpose: Identify Google's priority <u>asks of Apple</u> with regards to the Google app experience on iOS, with a focus on Apple's developer policies and interoperability between Apple and Google apps.</p> <p>Note: Apple Developer Relations is leading an internal initiative to prepare Google's apps (including Maps, Gmail, and Calendar) to be set as defaults on iOS, if Apple allows this with iOS 14 (expected September 2020).</p>

APPENDIX A: RECENT COMPANY NEWS

Apple Earnings Snapshot

On October 29, Apple reported Q4 FY'20 earnings (quarter ending 9/30/20) with \$64.7B revenue (+1% YoY), surpassing analysts' expectations of \$63.7B. Unlike prior years, this quarter's earnings do not include revenue from the new iPhone 12, as it launched in October. The Mac and Services segments reached all-time highs (\$9.0B and \$14.5B respectively), while sales in greater China decreased 28%. Apple did not provide Q1 guidance or forecasts, citing uncertainty due to the pandemic.

- **Revenue:** \$64.7B (+1% YoY)
 - iPhone: \$26.4B (-21% YoY)
 - Mac: \$9.0B (+29% YoY)
 - iPad: \$7.9B (+46% YoY)
 - Wearables, Home, and Accessories: \$7.9B (+21% YoY)
 - Services: \$14.5B (16% YoY)

APPENDIX B: APPLE ORG CHART

Partner Business Unit	Partner PoC Name & Title	Google PoC Name
CEO	Tim Cook, CEO	Sundar Pichai
Legal	Katharine Adams, SVP and General Counsel	Kent Walker
Eng	Craig Federighi, SVP Software Engineering	Hiroshi Lockheimer
AI/ML	John Giannandrea, SVP Machine Learning and AI Strategy	Jeff Dean
Finance	Luca Maestri, SVP and CFO	Ruth Porat
People Ops	Deirdre O'Brien, SVP, Retail + People	Eileen Naughton
HW Eng	Dan Riccio, SVP, Hardware Engineering Johnny Srouji, SVP, Hardware Tech	Suveer Kothari
Marketing	Greg (Joz) Joswiak, SVP, Worldwide Marketing	Lorraine Twohill
Cloud	Mary Demby, CIO	Thomas Kurian
Services (including integrations with YouTube, HW etc.)	Eddy Cue, SVP Internet Software and Services	<ul style="list-style-type: none"> • Philipp Schindler (partnerships including HW) • Susan Wojcicki (YouTube)
Video, News, Books, iCloud, Advertising Services	Peter Stern, VP (Video, News, Books, iCloud, and Advertising Services)	Don Harrison

Operations	Jeff Williams, COO // Sabih Khan, SVP, Operations	N/A
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